

Why Employers Should Assist Workers with Their 401(k) Investment Options: A First-Person Perspective

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The American workforce isn't just in need of financial education, it's desperate for it. As a result, financial education programs comprise one of today's fastest-growing industries. Research has suggested that 20% of workers would pay for assistance in sorting out the investment options in their employer's 401(k) savings plan. This paper is the text of a speech given as the keynote address at the third national conference on Personal Finances and Worker Productivity, November 11, 1998. A number of arguments are offered illustrating the benefits to employers of providing their workers with sound financial education.

I'd like to begin my talk today by telling you how grateful I am for this opportunity. And I'm not referring to the opportunity to address all of you, but rather to the chance this gives me to tell people how working at MONEY magazine has ruined my life.

You see, before I started working at MONEY, I could be introduced to new people. And we would be able to have perfectly interesting conversations about politics, sports, or the arts.

But not anymore. You see, as soon as anyone finds out that I work at MONEY magazine, all that person wants to talk about are the best ways to invest in a 401(k) plan.

But it gets worse. You see, before I started to work at MONEY, my parents would call me—a bit too often, in fact—just to say hello, or tell me that they loved me. These days? I only get a phone call when the stock market's tanking.

Who wants a life like this? Certainly not I. So this summer, I tried to escape it all, by going to Africa.

There I was in Uganda, having just spent the day whitewater rafting down the Nile. I was sitting in a pick-up truck, headed back to the hotel with the other members of my tour group, when one of them struck up a conversation with me.

It turned out he was a missionary, training Ugandans to be Baptists. He told me about his work, his mission.....and then he asked me what I did for a living.

I hesitated.....but then I figured, 'Hey. I'm in Uganda. It's got to be safe here'.

So I told him.

"I'm a writer for MONEY magazine," I said.

"Oh, really?," he asked. I started to get that familiar sinking feeling. "You know, I've heard there's some new stuff going on involving education tax credits. Do you think you could explain them to me?"

So you see, the real reason that I'm here today is not simply to tell you about the importance of financially educating your workers.

It's to beg you to help me get my life back!

The American Workforce Needs Financial Education

The American workforce—as I hope I've demonstrated—isn't just in need of financial education; it's desperate for it.

As a result, financial education programs comprise one of today's fastest-growing industries, a trend MONEY magazine reflected

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last year when we picked financial and retirement planning as one of the hottest businesses an entrepreneur could open in 1998. Our decision was based, in part, on the findings of a survey conducted by Access Research, which revealed that 20% of workers said they would actually pay for aid in sorting out their 401(k) savings options.

But it was also based on the fact that every editor and writer at MONEY magazine has stories to tell like mine—of being accosted at parties, on subways, by people wanting someone to tell them how to handle their finances.

And we at MONEY magazine have responded. Just this year, MONEY started a new, monthly column called Roth-O-Mania, devoted entirely to answering reader questions about the new Roth IRA.

And when we saw that even that wasn't enough, we decided to devote an entire story in an upcoming issue to sorting through all the misinformation our readers have been getting about the Roth, and setting them straight.

Our most recent issue posed a question on the cover: "What Should You Do?" We were referring, of course, to the recent stock market volatility. And in printing the question, we were simply echoing the misgivings our readers had conveyed to us in hundreds of letters and phone calls.

You see, American workers today are more responsible than ever for their finances. Choices are everywhere: Do I want a traditional pension plan or a 401(k)? What's the best mutual fund to meet my needs? Which health care plan offers the best services for the money? Do I want to deposit my paycheck at a bank, credit union, or brokerage?

Yet this new era of choice hasn't left workers feeling empowered. It's left them feeling doubtful, and afraid. And even the best efforts of MONEY magazine aren't enough. We need your help in furthering the financial education of the American workforce.

Why Care?

But maybe you're thinking, Why should my company care if Americans are walking around financially dazed and confused?

Well, I could make an appeal to you on an emotional level, and point out that the number one cause of divorce in this country is money fights. And that socioeconomic status has been found to impact the functioning of families on many levels—but most particularly on the psychological development of children.

In other words, the more financially secure a worker is, the better his or her chances of having a happy, healthy home life.

Not our responsibility, you say.

The Bottom Line Benefits of Financial Education

Okay. So I could make an appeal to you on a practical level, and note that evidence suggests that employee-education programs can make 401(k) participants better investors. That's because the more educated a worker is, the more comfortable he or she feels putting money in stocks, which is the best-performing asset class over time.

In other words, financially educating your workers makes them more financially secure, which in turn, benefits society.

We're not that altruistic, you say.

Okay. So instead, I'm going to appeal to you in a way that I know you can't ignore: By addressing the bottom line benefits of financially educating your workers.

Last summer, Ernst & Young conducted a survey of 150 corporations. The firm wanted to find out what impact—if any—adding financial education to a benefits package has.

The survey found that, of the 150 corporations, over half of them conclude that such assistance greatly reduces turnover and helps attract new workers.

The lesson? If you want to improve and stabilize your company's workforce, don't just show them the money. Show them how to use it.

Stress over Money Matters

Research also finds that by financially educating your workers about opinions such as phased retirement, and by helping them make a realistic assessment of their retirement needs, you can avoid a potentially crippling loss of too many workers leaving at the same time.

This is of particular concern to employers right now, given that Baby Boomers represent half of the American working population, and that 50% of Boomers have stated in survey after survey that they want to retire by age 55 or younger. Clearly, if all Boomers were to follow through on this goal, the mass exodus would spell disaster for corporate America.

The lesson? If you don't want to face a potentially devastating staffing crisis, don't just tell your workers that you want them to stay with you. Show them the best ways to do so.

Then there are the psychologists who say that financial worry is one of the three leading causes of stress. In fact, it is believed that, right now, 15% of workers in the United States are experiencing stress directly related to financial difficulty.

And because stress accounts for over two-thirds of doctor visits—and serves as a main contributing factor to heart and lung disorders, accidents, and suicides—it is also responsible for over one billion dollars a year in direct medical costs.

Moreover, indirect costs to industry are estimated at one and a half billion dollars, in the form of lost time, absenteeism, reduced productivity, mistakes, low morale, and high turnover.

Still, a study out of the Center for Financial Responsibility at Texas Tech University found that the greater financial security workers have, the greater their on-the-job productivity. The

study went on to say that employers who offer their workers financial education can potentially generate a \$400 return on their investment in these programs during the first year alone.

The lesson? If you want to save your company time and money, don't just encourage your workers to reduce stress by reimbursing their health club fees or offering fitness incentives. Show them how to do so...by improving their financial well-being.

Positive Results from Financial Education

Companies that have already taken steps to provide financial education to their workers *are* seeing results.

Take the case of Parkview Hospital, now a part of Parkview Health Systems. In January of this year, Parkview introduced a new benefits package called "Powerful benefits." The package included an enhanced retirement and investment program, along with expanded healthcare options and a new time-off-with-pay plan.

The benefits represented a radically new concept for workers, who were used to receiving company-paid and company-chosen options.

In short, workers had been transformed from benefits users into benefits consumers—or, more tellingly, into *passive* benefits consumers, because they hadn't been educated about how to make the best choices.

This was not a good development. That's because benefits are costly; according to a 1997 study by the U.S. Chamber of Commerce, benefits cost employers 41 percent of pay, up from just 28 percent in 1985. So if workers aren't making good benefits decisions, they are, in fact, wasting employer resources.

That's something no company can afford. And so Parkview decided that it would be in the company's best interest to turn its workers into aggressive benefits consumers, by financially educating them.

Parkview was right. Over the past year and a half—after offering a series of education sessions that included tips on good financial habits, expectations surrounding Social Security and the cost of mutual funds—the company has seen worker enrollment in its revamped 403(b) budget plan more than double, from 24 percent to 53 percent.

Parkview has also cut in half the number of requests it receives for leaves of absences of three days or more, boosting worker productivity.

Another financial education program called Money 2000 (even though it has nothing to do with MONEY magazine!) is being offered through a small but growing number of state universities. The program's mission is to encourage participants to reduce their debt or increase their savings by \$2,000 by the year 2000.

Already, in less than two years of operation, the program has helped thousands of workers in at least three states trim debt or pump up savings by about \$400 per person.

Money 2000's experience is consistent with other research showing that by helping financially-strapped workers make good financial decisions, these workers can improve their financial situation within one year to the point where they can start contributing to their retirement plans. In fact, studies show that two-thirds of workers with credit and money-management problems can, with professional help, improve their financial situations.

But perhaps you're thinking that none of this applies to you because your workers don't have money problems. Therefore, you don't need to provide them with any help.

Think again. The 1998 Retirement Confidence Survey, conducted by the Employee Benefits Research Institute, found that 37 percent of Americans have not yet begun to save for retirement. Moreover, 43 percent of those surveyed said it wasn't reasonable for them to save a mere 20 dollars a week more.

Even more astonishing were the recent remarks of Arthur Levitt, chairman of the Securities and Exchange Commission. At the National Summit on Retirement Savings, he observed that for every American household invested in the markets, another family has saved nothing at all.

If none of what I've said to you thus far has convinced you of the importance of financially educating your workers, well.....I think I've got one more piece of information that ought to do the trick: If you don't initiate an employee education program, you could end up facing more litigation than Bill Clinton.

Increasingly, scholars report that public policy is moving toward making employers more accountable for their workers' retirement funding deficiencies. Former workers who claim that their employer was negligent when it came to financially educating them—which can mean everything from offering a lousy pension plan to not teaching them how to invest—are taking their cases to court.

Hopefully, that's gotten your attention.

Which raises the question of what the best ways are of offering employee financial education to your workforce.

The Best Ways to Educate Workers

For starters, it's vital to cover as many different financial topics as possible. Right now, when financial education programs exist, they typically focus on retirement planning. But in order for anyone to properly manage money, he or she must be able to take a look at the big financial picture. After all, the mutual fund you choose is going to affect the taxes you pay, which in turn influences the amount of money you have available to save, which determines what kind of spending budget you should draw up.

In fact, teaching workers about money is a little bit like helping someone who's trying to lose weight. It's not enough to have a person drink three shakes a day and lose 50 pounds; there needs to be an integrated approach, touching on

exercise, nutrition, and psychology, if weight maintenance is to be achieved.

The same thing applies to maintaining a healthy financial portfolio. Sure, maybe you've helped your workers save for their own retirements. But what about preparing them for emergencies? Or paying for their kids' college educations? Or buying a house?

In addition, a good financial education program should offer individual financial counseling, free financial assessments, access to a financial hotline for questions, comparison shopping advice for various products and services....and perhaps even a subscription to MONEY magazine.

When it comes to offering the information, you can do so in as many ways as your imagination allows: with written materials, in lunch-hour sessions or full-day seminars, through educational videos, over the Internet, or in person.

The point is, there are compelling ways to financially educate your workers...and compelling reasons to do so. If corporate America is to remain competitive into the next century—when the world around us is only going to grow more complicated—it must invest in its worker's financial well-being.

That is, in fact, the only way to ensure that American companies continue to enjoy the kind of success and growth that they have experienced during the last decade.